1H21 Results
Presentation


17 February 2021

## About The Reject Shop

The Reject Shop has been delivering value to shoppers for 40 years. The Reject Shop helps all Australians save money everyday by offering products frequently used and replenished such as food, snacks, greeting cards, party, health and beauty, cleaning supplies, storage, kitchenware, homewares, pet care and seasonal products at low prices in $354^{*}$ convenient store locations across Australia.


## Results Overview

- Statutory NPAT (post AASB 16) of $\$ 17.0$ million, up $79.3 \%$ on the prior corresponding period (pcp)
- NPAT (pre AASB 16) ${ }^{1}$ of $\$ 16.3$ million, up $46.5 \%$ on pcp
- EBIT (pre AASB 16) ${ }^{1,2}$ of $\$ 23.3$ million, up $44.9 \%$ on pcp
- EBITDA (pre AASB 16$)^{1,2}$ of $\$ 31.1$ million, up $20.8 \%$ on $p c p$

> WE ARE HERE TO HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY

- $\quad$ Sales of $\$ 434.3$ million, down $0.3 \%$ on pcp
- Comparable store sales were flat
- Strong balance sheet with cash of $\$ 107.6$ million and no drawn debt (29 December 2019: net cash position of $\$ 51.9$ million)
- No interim dividend has been declared in 1 H 21
- No JobKeeper wage subsidies were received

Financial Overview

| \$m | Statutory |  |  | Pre AASB16 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Variance |  |  | Variance |  |  |
|  | 1H21 | 1H2O | F/(U) | 1H21 | 1H20 | F/(U) |
| Sales | 434.3 | 435.7 | (0.3)\% | 434.3 | 435.7 | (0.3)\% |
| Comp. Sales | (0.0)\% | 0.5\% |  | (0.0)\% | 0.5\% |  |
| Gross Profit | 186.6 | 191.6 | (2.7)\% | 182.8 | 187.8 | (2.7)\% |
| CODB | (102.8) | (114.4) | 10.2\% | (151.7) | (162.1) | 6.4\% |
| EBITDA | 83.7 | 77.2 | 8.5\% | 31.1 | 25.7 | 20.8\% |
| Depreciation | (56.0) | (59.6) | 6.0\% | (7.7) | (9.6) | 19.6\% |
| EBIT | 27.7 | 17.6 | 57.7\% | 23.3 | 16.1 | 44.9\% |
| Interest | (3.3) | (4.2) | 20.9\% | (0.0) | (0.4) | 90.2\% |
| Profit Before Tax | 24.4 | 13.4 | 82.4\% | 23.3 | 15.7 | 48.6\% |
| Tax | (7.3) | (3.9) | (90.0)\% | (7.0) | (4.6) | (53.9)\% |
| Net Profit After Tax | 17.0 | 9.5 | 79.3\% | 16.3 | 11.1 | 46.5\% |

## Operating Results

## Sales

- Comparable store sales were flat
- State Government imposed COVID-19 restrictions and border closures had a mixed impact on sales
- CBD and large shopping centre stores were most negatively impacted, with reduced footfall due to customer concerns around COVID-19
- Stock availability issues resulting from delays in international shipping
- Christmas effectively sold-out before Christmas Eve, albeit stock levels were lower than the pcp
- 356 stores at 27 December 2020 with 3 new store openings and 1 closure during the first half


## Gross Profit (Pre AASB 16)

- Gross margin was down c. 100 basis points on pcp
- Gross margin includes impact of write-down on hand sanitiser of \$3.6 million
- Excluding the hand sanitiser write-down, the gross margin would have been $42.9 \%$ (down c. 20 basis points on pcp)
- Gross margin was also negatively impacted by higher shipping charges due to high demand and limited capacity in the international shipping market

| \$m | 1 H 21 $($ Pre AASB 16) | $\begin{array}{r} 1 \mathrm{H} 20 \\ \text { (Pre AASB 16) } \\ \hline \end{array}$ | Variance $\mathrm{F} /(\mathrm{U})$ |
| :---: | :---: | :---: | :---: |
| Sales | 434.3 | 435.7 | (0.3)\% |
| Comp. Sales | (0.0)\% | 0.5\% |  |
| Gross Profit <br> \% sales | $\begin{gathered} 182.8 \\ 42.1 \% \end{gathered}$ | $\begin{gathered} 187.8 \\ 43.1 \% \end{gathered}$ | $\begin{gathered} (2.7) \% \\ (1.0) \% \end{gathered}$ |
| Store Expenses <br> \% sales | $\begin{aligned} & (132.5) \\ & (30.5) \% \end{aligned}$ | $\begin{aligned} & (140.4) \\ & (32.2) \% \end{aligned}$ | $\begin{array}{r} 5.7 \% \\ 1.7 \% \end{array}$ |
| Admin Expenses $\%$ sales | $\begin{aligned} & (19.3) \\ & (4.4) \% \end{aligned}$ | $\begin{aligned} & (21.7) \\ & (5.0) \% \end{aligned}$ | $\begin{array}{r} 11.1 \% \\ 0.5 \% \end{array}$ |
| EBITDA <br> \% sales | $\begin{aligned} & 31.1 \\ & 7.2 \% \end{aligned}$ | $\begin{gathered} 25.7 \\ 5.9 \% \end{gathered}$ | $\begin{array}{r} 20.8 \% \\ 1.3 \% \end{array}$ |
| D\&A | (7.7) | (9.6) | 19.6\% |
| EBIT | 23.3 | 16.1 | 44.9\% |
| \% sales | 5.4\% | 3.7\% | 1.7\% |

(1) 1 H 21 Pre AASB 16 results have not been reviewed by the Company's auditors. 1 H 21 Pre AASB 16 occupancy costs have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.

## Operating Results (cont'd)

## Cost of Doing Business (CODB) (Pre AASB 16)

- CODB margin improved by approximately 230 basis points to $34.9 \%$
- CODB improvement driven by c. $\$ 8$ million saving in Store Expenses ${ }^{2}$ and $\$ 2.4$ million saving in Admin Expenses
- Store labour reduced to $13.6 \%$ of sales (vs. $14.9 \%$ in 1 H 20 ) through lower inventory and simplification and standardisation of in-store processes
- Store occupancy costs increased slightly to $13.1 \%$, with CPI increases partially offset by rent reductions on renewals and other savings
- Other store costs and marketing spend were well controlled and were lower than the pcp
- Depreciation was lower than the pcp by $\$ 1.9$ million, mainly due to a number of non-store assets being fully written down
- No JobKeeper wage subsidies were received

|  | 1 H 21 <br> \$m | 1 H 20 <br> (Pre AASB 16) | Variance <br> (Pre AASB 16) |
| :--- | ---: | ---: | ---: |
| Sales | $\mathbf{4 3 4 . 3}$ | $\mathbf{4 3 5 . 7}$ | $(0.3) \%$ |
| Comp. Sales | $(0.0) \%$ | $0.5 \%$ |  |
| Gross Profit | $\mathbf{1 8 2 . 8}$ | $\mathbf{1 8 7 . 8}$ | $(2.7) \%$ |
| \% sales | $42.1 \%$ | $43.1 \%$ | $(1.0) \%$ |
| Store Expenses | $(132.5)$ | $(140.4)$ | $5.7 \%$ |
| \% sales | $(30.5) \%$ | $(32.2) \%$ | $1.7 \%$ |
| Admin Expenses | $(19.3)$ | $(21.7)$ | $11.1 \%$ |
| \% sales | $(4.4) \%$ | $(5.0) \%$ | $0.5 \%$ |
| EBITDA | 31.1 | $\mathbf{2 5 . 7}$ | $20.8 \%$ |
| \% sales | $7.2 \%$ | $5.9 \%$ | $1.3 \%$ |
| D\&A | $(7.7)$ | $(9.6)$ | $19.6 \%$ |
| EBIT | $\mathbf{2 3 . 3}$ | $\mathbf{1 6 . 1}$ | $44.9 \%$ |
| \% sales | $5.4 \%$ | $3.7 \%$ | $1.7 \%$ |

(1) 1 H 21 Pre AASB 16 results have not been reviewed by the Company's auditors. 1H21 Pre AASB 16 occupancy costs have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and costs have been estim results.
(2) Store Expenses in $1 \mathrm{H} 20(\mathrm{pcp})$ included a provision for impairment of store assets of $\$ 0.9$ million

## Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
- Net Cash of \$107.6m
- No drawn debt
- Undrawn facilities including: interchangeable facility ( $\$ 10 \mathrm{~m}$ ) and seasonal facility ( $\$ 20 \mathrm{~m}$ available between October and December but requires $\$ 5 \mathrm{~m}$ deposit to be used)
- Free cash flow of $\$ 15.2$ million
- Inventory levels expected to remain elevated over the coming months to mitigate against potential further international shipping delays
- Reduction in SKUs to c.8,000
- Improved stock-turn of $5.5 x$
- Existing ANZ banking facilities in place to 31 August 2021 and compliant with all December 2020 financial covenants

|  | 27-Dec-20 | 29-Dec-19 |
| :--- | ---: | ---: |
| Sm | 31.1 | 25.7 |
| EBITDA (Pre AASB-16) |  |  |
| less: Net External Interest | $(0.0)$ | $(0.4)$ |
| less: Tax (Paid) / Refunded | $(6.2)$ | 2.2 |
| Changes in Working Capital \& Other | $(3.6)$ | 23.6 |
| Operating Cash Flows | $\mathbf{2 1 . 2}$ | $\mathbf{5 1 . 1}$ |
| Capital Expenditure | $(6.1)$ | $(6.0)$ |
| Free Cash Flow | $\mathbf{1 5 . 2}$ | $\mathbf{4 5 . 1}$ |
| Net Proceeds from Borrowings | - | $(18.0)$ |
| Dividends Paid | - | - |
| Net Cash Flow | $\mathbf{1 5 . 2}$ | $\mathbf{2 7 . 1}$ |

(1) 1 H 21 Pre AASB 16 results have not been reviewed by the Company's auditors. 1 H 21 Pre AASB 16 occupancy costs have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.

| \$m | 27-Dec-20 | 28-Jun-20 | 29-Dec-19 |
| :--- | ---: | ---: | ---: |
| Net Debt | - |  |  |
| Drawn Debt | $(107.6)$ | $(92.5)$ | $(53.4)$ |
| less: Cash | $(107.6)$ | $(92.5)$ | $(51.9)$ |
| Net Debt / (Cash) |  |  |  |
|  |  |  |  |
| Inventory | 89.9 | 70.9 | 117.6 |
| Closing Inventory | 5.5 x | 4.8 x | 4.2 x |
| Stock Turns |  |  |  |

## Outlook for the Second Half

- 1 H 21 performance should not be used as an indicator for the second half of the financial year
- The Reject Shop typically generates a higher proportion of full year sales in the first half and has reported EBITDA and EBIT losses in the second half over the past two financial years. The same is expected in 2 H 21
- During the second half, management will continue to focus on cost reduction, driven by business simplification and operational efficiency
- COVID-19 continues to impact sales performance with January and February sales adversely impacted by the Brisbane, Perth and Victoria lockdowns, COVID-19 concerns in New South Wales, and changing State border restrictions
- Stores in CBD locations and large shopping centres continue to be negatively impacted by reduced footfall
- Ongoing challenges in the international supply chain are expected to result in increased costs through higher shipping charges and to continue impacting stock availability
- In the first two months of the second half of FY21, two further underperforming stores were closed. The national store footprint remains at 354 stores with a further 9 stores expected to open progressively during the fourth quarter of FY21
- Given the operating environment remains uncertain, the Company has determined not to provide specific guidance for 2 H 21 or FY21 at this time


## Key Takeaways

- Profit growth delivered in 1H21 notwithstanding flat sales, COVID-19 volatility, higher international shipping charges and write-down of hand sanitiser
- Strong balance sheet with $\$ 107.6 \mathrm{~m}$ in cash and no drawn debt
- Cost reduction initiatives well progressed
- Operating environment remains uncertain, particularly in relation to COVID-19 and challenges in the international supply chain - focus will be on continued cost reduction and business simplification in second half


## Business ‘Turnaround’ Phases

- The Reject Shop 'Turnaround' consists of a threephase strategic plan guiding the entire business through the phases of 'fix', 'reset' and 'grow'
- In the 'fix' phase of our strategy, 'cost reduction' through business simplification and operational efficiencies is our primary focus
- The 'fix' phase will provide stability allowing for the transformation of the merchandise range with a particular focus on everyday needs, lifestyle and seasonal merchandise


## Our Customers

- Lowered average selling price
- Lowest Price Guarantee implemented
- Consumables growth supported by new strategic partnerships with Tesco and other national brands
- General Merchandise fix underway with new and improved product expected in the latter part of 2 H 21
- Enhanced customer shopping experience with reduced inventory resulting in cleaner stores and simplified aisle navigation
- Trollies trialled in approximately 30 stores
- Launched new website
- Enhanced signage at the front of all stores


Our Operations

- COVID-19 safe ways of working implemented
- Labour efficiencies achieved via reduction in SKUs and aged inventory
- Standardised and simplified ways of working across all stores and introduced clear commercial accountability
- One-touch merchandising through shelf and floor ready product flow
- Installed new fixtures in store drive aisles, enabling easy setup of key events (e.g. Christmas)
- Rostering system upgraded
- Recruitment system upgraded
- Rolled out 'Push to Talk' headsets to store teams
- 'Stores of Learning' opened in each State
- Security barriers installed in a further c .100 stores (c. 200 in total)




## Our Performance

- Pre AASB 16 EBIT growth of $+45 \%$ on pcp in 1 H 21
- Cost savings delivered in line with plan
- Headwinds expected in second half with ongoing challenges associated with COVID-19 and international supply chain
- 2 H 21 focus on navigating through these challenges, continuing to 'fix' the business, and preparing for 'reset' and 'grow'
- Preparations for 'reset' and 'grow' are already underway:
- Opened three new stores in 1 H 21 with a further 9 new stores expected to open during 2 H 21
- Closing underperforming or unprofitable stores with 3 stores closed in FY21 to date with further closures expected

- Launched trial of online same-day delivery in partnership with DoorDash across approximately 145 stores


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## Appendix: P\&L Reconciliation

|  | $1 H 21$ <br> \$m | AASB 16 <br> Impact | $1 \mathbf{H} 21$ <br> (Statutory) |
| :--- | ---: | ---: | ---: |
| Sales | 434.3 | - | 434.3 |
| Gross Profit | 182.8 | 3.8 | 186.6 |
| Store Expenses | $(132.5)$ | 48.4 | $(84.0)$ |
| Admin Expenses | $(19.3)$ | 0.5 | $(18.8)$ |
| EBITDA | 31.1 | 52.7 | 83.7 |
| D\&A | $(7.7)$ | $(48.3)$ | $(56.0)$ |
| EBIT | 23.3 | 4.3 | 27.7 |
| Interest | $(0.0)$ | $(3.3)$ | $(3.3)$ |
| Profit Before Tax | 23.3 | 1.1 | 24.4 |
| Tax | $(7.0)$ | $(0.3)$ | $(7.3)$ |
| Net Profit After Tax | 16.3 | $\mathbf{0 . 7}$ | 17.0 |

[^0] Management's budget for Pre AASB 16 occupancy costs in 1H20.
Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been reviewed by the Company's auditor

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All references to dollars and cents are to Australian dollars unless otherwise stated and all financial data is presented as at the date of this presentation unless otherwise stated


[^0]:    1H21 Pre AASB 16 results have not been reviewed by the Company's auditor. 1 H21 Pre AASB 16 occupancy costs have been estimated using cash occupancy costs. 1 H20 Pre AASB 16 occupancy costs were estimated using

